

IRS News Release

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IRS Liberalizes Interest Suspension Rule for Amended Returns

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WASHINGTON — The Internal Revenue Service today announced a liberalization of the rule for interest owed on additional taxes voluntarily reported by taxpayers.

Section 6404(g) suspends interest accrual for individuals on taxes due if the IRS does not notify a taxpayer of the potential liability within 18 months after the filing of the return. This interest suspension then continues until 21 days after the IRS notifies the taxpayer of additional taxes due.

Previously, this rule was applied only where the additional taxes were found by the IRS. Today, Revenue Ruling 2005-4 extends the scope of section 6404(g) to additional taxes voluntarily reported by taxpayers on amended returns or in correspondence to the IRS. Further, to allow taxpayers to benefit from these expanded rules for earlier years, the ruling applies to amended returns or correspondence submitted for tax years ending after July 22, 1998, the date section 6404(g) was enacted.

Taxpayers who are due an interest adjustment under the new rule need not take any action as the IRS will automatically identify them. If the taxpayer's account is paid in full, the IRS will issue a refund to the taxpayer for the interest. If the account shows a balance due, the IRS will reduce the amount due by the interest adjustment.

"This puts taxpayers who come forward voluntarily on the same footing as those we have pursued, which is only fair," IRS Commissioner Mark W. Everson said. "But it's important to note the suspension rules are different for people who have entered into designated abusive transactions."

The 2004 American Jobs Creation Act eliminated any interest suspension for transactions that have been designated as potentially abusive. The provision became effective Oct. 3, 2004.

Taxpayers can view the full text of Revenue Ruling 2005-4 on the IRS Web site at IRS.gov.